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THE CHARACTER AND POWERS OF GOVERNMENTAL REGULATION MACHINERY¹

The complete breakdown of the attempts of the several states to regulate interstate trade is the chief cause of the existing industrial distress. Few, however, realize how serious this disturbance is. Business men, alarmed by the wave of attacks on capital which has swept over the country, are afraid to put their money in new enterprises, or even to expand those already existing, with the result that business in all branches is on a hand-to-mouth basis, which means small or no profits and an increasing host of unemployed workmen. It is stated that there are 125,000 idle men in Chicago, alone. Bradstreet reports that there were more failures in 1911 than in any year since 1897, with the exception of 1908, the year which bore the consequences of the disastrous panic of 1907. The liabilities of these failures were \$188,094,007, 75 per cent greater than in 1902. These figures deal only with actual insolvencies, and do not take into account the large number of cases where concerns were in financial difficulty, but managed to avoid actual bankruptcy. The sufferers were not rich men, driven to the wall by prosecution for violations of the law, since 91 per cent of them had a capital of \$5,000 or less; nor were they victims of the trusts, for only 3 per cent of them were forced out by competition. This year promises to be even worse, for the January failures amount to 1,897 as against 1,663 for the same period last year. Such is the situation, not in a time of panic, but after several years of good crops, while money is abundant and stocks of goods are small—all conditions which should produce general activity and prosperity.

A similar commercial prostration, in 1787, contributed largely to the abandonment of the former Confederation, and the adoption of the present Federal Constitution, which, as John Adams said, "was extorted by grinding necessity from a reluctant people." The main difficulty then, as it will be now, was the unwillingness

¹ A paper read before the Western Economic Society of Chicago, March, 1912.

of the states to surrender to the federal government their powers over commerce, which, from the very nature of the case, they could not exert with success, for commerce refuses to be cramped within state bounds.

The same remedy which was advantageous then should be applied now—the federal government should regulate interstate trade as it has regulated bankruptcy and the issue of banknotes. If it had exercised properly its powers in the past, we should not face today the problems of overgrown corporations.

The times call for leaders who will consider impartially the absolute necessities of each conflicting interest, and who will work out a solution, which, while giving to no party all that it demands, is nevertheless just to all.

There is too great a tendency to consider the contest as one merely between organized capital and the consuming public, but no settlement can endure which does not give equal weight to the claims of labor for justice. The consumer feels that he has not been given a fair share of the immense saving in the cost of production consequent upon the introduction of labor-saving machinery, while with even more reason, the working classes feel oppressed because they are given such a small portion of the wealth which they help to create.

A magnificent opportunity lies before us. In the past, in every age and country, one faction after another rose to power, exploited all the others for its own selfish advantage, only to be crushed in its turn by the savage revenge of its former victims. One revolution followed another, in never-ending succession. Today, thanks to the careful studies of trained economists, we have the opportunity to replace revolution with evolution. It is perfectly clear that it is not for the permanent best interests of any element to take unfair advantage of another. Our great merchants discovered long ago that their prosperity was best furthered, not by selfish, sharp dealing, but by securing the good-will of the public through satisfactory service, and this is the basis of the phenomenal success of many of our department stores and mail-order houses. We know that the present hostility of society to the trusts is the inevitable result of their disregard for the demands of the public,

and that if they do not make satisfactory concessions, they will certainly cause legislation which will be radical to the bounds of confiscation. If, on the other hand, capital is not allowed a just return, our industries will languish and we shall see the already large armies of the unemployed swell to dangerous proportions.

Fortunately for all of us, the situation is most hopeful, for a great ethical revolution has been taking place almost unnoticed, and there is a general assent to the idea that business, which was formerly regarded as a private affair, really owes duties to society. Many of our great captains of industry even welcome regulation for the public welfare, and recognize that corporations are created by the state for the benefit of the community, not merely to give individuals additional facilities for amassing wealth, and that, consequently, the public has a right to a share in corporate profits. Still more universal is the tendency to improve the lot of employees by welfare work, social service, profit sharing, and similar agencies; and an employer who ill-treats his men meets the strong condemnation of his fellows.

Let us make a clear statement of the conditions which exist, and then consider in turn various expedients that may be suggested to better them.

The present industrial situation will not be endured by the American people any longer. There is a general dissatisfaction with the result of the suits against the Standard Oil Company and the American Tobacco Company, though no blame can be placed either on the courts or on the Department of Justice, as they did their best with the inadequate legal machinery at their disposal. The people want lower prices and the cessation of oppressive tactics, and are not satisfied when they see many smaller trusts replace one large one. They realize that if the ownership remains the same in the different companies, common sense will prevent a carnival of price cutting.

The substance of the popular demand, and not the mere name, must be secured by any rational solution of our present difficulties. The Sherman law, in the twenty-two years in which it has been in existence, has evidently failed to produce the expected results in restoring competition and in decreasing prices, and there is com-

plaint from business men that its enforcement has caused commercial stagnation by interfering with the working of economic laws. Very many good citizens feel that, even under the most liberal interpretation, the law forbids combinations which are essential to the welfare of society. Still more are convinced not only that its strict enforcement means great hardship and injustice to thousands of honest and innocent investors, but also that if the full fierceness of competition is restored, the smaller and weaker concerns will be crushed out by their more unscrupulous competitors, leaving the field in the undisturbed possession of the more powerful organizations.

The real problem before us, therefore, is not to attempt the impossible task of preventing combinations of capital, which are the very foundations of our civilization, but to remove the evils which have grown up under our policy of inadequate regulation. The question is one of methods, not of principle: we need reorganization, not disorganization of our industries. We must have a campaign of education to bring to the attention of the American people definite plans for discussion and amendment, and our business men ought to stop their useless complaints and address their energies to formulating and advocating such a plan. Our voters have shown over and over again that they can be trusted to be fair, provided clear-cut issues are presented to them, free from confusing minor details.

Let us next review the various considerations which must guide us in constructing an adequate policy. It is an axiom that business can adapt itself to anything except uncertainty; so it is evidently essential to define by legislation in the clearest terms, so that every man may understand without legal assistance, what the policies of the government are, what practices are forbidden, what methods of combination may be employed, and under what conditions. It is the lack of just this that is paralyzing business. It is stated without contradiction that corporations, unable to obtain satisfactory opinions from their legal advisers, have applied to the Department of Justice for guidance in vain, as it has no statutory authority to reorganize corporations in compliance with the laws. The disgust of business with the present haphazard method of

government by lawsuit, the only available means provided by our deficient legislation, is shown by the recent loan to Germany of millions needed for the development of our own industries.

We must bear in mind in formulating our plans that radical changes in legislation are always unwise, and that the most satisfactory results are attained by the conservative use of methods which have stood the test of experience. Some of the ideas here advanced may seem extremely progressive, but they have all worked advantageously in some places, mostly in the conservative New England states.

There seems to be a general demand for equality of opportunity for all, for a decrease of the cost of articles to the consumer, for the fostering of small, independent concerns, and for the prevention of the domination of large industries by huge corporations. In order to attain these results, we may find it necessary here, as has been the case in other lands, to put under government control the privately owned natural monopolies, such as lands containing coal, oil, ore, and various minerals, standing timber, and the water needed for irrigation, power, and the supply of cities, because the owners of these have it in their power to place an intolerable tax on the necessities of life.

One of the chief functions of government must always be to protect those who are unable to take care of themselves, and we are inclined to overlook the fact that the progress of our civilization constantly deprives us of the opportunity for free choice. The pure food laws were passed because it cannot be disputed that the consumer cannot possibly be expected to know which of the many preservatives devised by expert chemists are dangerous to health. The manufacturer of any size can no longer decide whether he will sell his goods at home or ship them by rail, so the government must guarantee him against overcharges in freight rates. When laborers seek employment from corporations employing many thousands, it is ridiculous to assert that they are making a free contract as to wages, hours, and conditions of employment. The state, therefore, constantly steps in, for their protection, with laws regarding hours of labor, factory inspection, and employers' liability, and must inevitably take even more effective measures.

The same line of reasoning justifies the defense of the consumer against large combinations of capital.

We shall have to go still farther, and protect the stockholders and bondholders in our corporations, just as the stockholders and the possessors of notes of our national banks are protected by the control exercised by the Comptroller of the Currency. We shall be obliged to abandon the fiction that a corporation is a partnership on a large scale, in which all the partners have an intimate knowledge of the business, select the managers, direct the policies, and, consequently, should share in the varying profits and losses incident to every mercantile concern, and be responsible for its conduct. As a matter of fact, nothing can be farther from the truth. The owners of stocks and bonds regard them as an investment from which they can draw a regular income of the amount of the customary annual dividend. If this is reduced, they feel injured, and often distrust the management and sell their stocks at a loss. There is no possibility whatever that they should take part in the management, shape the policies, or select the officers. It is a usual thing for a small minority of the stock, working in accord, to elect the officers of our largest corporations, year after year, by a judicious use of proxies. The state must therefore defend investors both from fraud from within, and from unfair treatment from without.

Immunity from harassing and conflicting state legislation can properly be requested by corporations which are asked to submit to the restrictions of federal control. Their plants should be fairly taxed by the local authorities, but they should be freed from state taxation, since they must bear their share of federal burdens. We have a wonderful opportunity to substitute a just and rational system of taxation for our present medley of oppressive laws, which are notoriously evaded, put a premium upon dishonesty, and thus substantiate the claim of the poorer classes that the wealthy are not bearing their share of the public expenses. It is perfectly possible to provide that all corporations shall deduct a federal income tax from all dividends paid to their stockholders, for England has for years found this system the only feasible one. Each state should receive from the federal treasury a share of this

tax proportionate to the holdings of all persons residing in its territory as shown by the stocklists. This works well in Massachusetts, where the state divides its corporation tax with the towns. This tax would be a true income tax, and would not, like most of our actual taxes, be added to the price of goods, and thus be transferred to the shoulders of the public. As nearly 80 per cent of our total output is produced by corporations, the amount having increased from 60 per cent inside ten years, this measure would produce a large revenue, as well as be just. The tax rate could vary with the necessities of the government, as is the English custom, and thus permit us to construct a budget like every other nation. The taxation of individuals and intrastate corporations would, of course, be left to states, which should be forbidden to tax incomes or securities of interstate corporations.

We must not forget that the laws of Nature are more powerful than those of man, and that if his statutes run counter to economic necessity, they will only bring commercial distress, and fail to accomplish their object. The most that legislation should do is to modify the operation of economic tendencies, giving them free play in one case, and checking their injurious consequences in another, employing usually the effective taxing power of the tariff or internal revenue duties. The state should interfere with business in general as little as is consistent with the protection against injury of consumers, laborers, creditors, stockholders, and the public at large.

One of the first of these laws is that the welfare of the community requires that business shall be made attractive enough to individuals to induce them to invest both money and brains in new enterprises for the development of the resources of the country, which will employ labor, and bring about general prosperity and confidence. We must take the greatest care not to hamper industry to such an extent as to drive away capital, for that can never be regulated by law, since there is no way to make a man put his money in undertakings which do not give an adequate return. Although money invested in real estate and machinery is at the mercy of legislation, the liquid capital upon which all business is dependent for its very life moves as freely as air from one country to another, drawn

wherever it can secure the greatest return with satisfactory security.

It is evident today that our railroads are not an attractive investment, owing to the refusal of the American people to allow them to raise their rates to meet increasing expenses, with the result that some have decreased their dividends, while others are paying them out of past surpluses. Compensation is one of the fundamental laws of Nature, and the present injustice to the railroads is preparing retribution. It is only a few years since our largest railroads had to refuse to accept freight for lack of facilities. Since then the country has been growing. Billions should have been invested in new tracks and terminals. The equipment is wearing out and is hardly being replaced, instead of being increased. Practically nothing is being done to provide for the future, because the managers of the railroads do not dare to issue more stocks or bonds, when they are hardly able to pay the usual return on those already extant.

The issues of railroad securities during the last few months have been at an interest rate above what was formerly considered the market rate. The public cannot escape this additional and unnecessary burden of its own devising. The time will again come when our facilities will be inadequate to the needs of commerce, and the whole nation will regret that it would not allow capital to obtain as good a return in railroads as elsewhere.

There is, happily, a solution of this problem, also. The return from any investment is composed of two elements, first, the current rate of interest for the use of money upon absolute security, and second, compensation for risk, which we may call profit. The former is settled by economic laws, modified by supply and demand; the latter varies constantly with the conditions of each industry and the state of credit. If an investment is hazardous, the shrewd capitalist will certainly demand a higher rate of return to compensate him for his risk. If, however, the risk is reduced to a minimum, he will be willing to accept a lower rate of income. If to the ordinary risks of industry we add the incalculable uncertainty of governmental interference, either the price of the commodity produced by the industry must be raised to compensate for this addi-

tional risk, or capital will refuse to enter the industry. If, however, we remove all risk of governmental interference, substituting absolute certainty, and further assure a definite return on the principal, capital will be willing to take a less return. We must not forget for a moment that the interest on capital is a burden which the public cannot escape, and hence it is clear that the rate of interest must, for the welfare of the community be made as low as possible by the elimination of every possible risk.

Many of the abuses which have caused the present hostility to the trusts can be eliminated by definite statutory prohibitions of specific practices. This is the method which has been pursued with success both in Germany and in England, where no effort is being made to check the present world-wide tendencies toward commercial co-operation, since they are considered advantageous to the nation. We should prohibit not all combination, but all *unfair* combination, and encourage not all competition, but all *square* competitions. Cut-throat competition is not for the public weal. The Wisconsin Public Service Commission states the case well in its decision refusing to allow the Kenosha Gas & Electric Company to reduce its rates. Rate wars usually result "in financial ruin to one or more of the contestants, the crippling of the rest, and the ultimate consolidation of the remnants into one concern. When peace has thus been restored, the rates are advanced, not only to the level that prevailed before the contest, but to even higher figures." We cannot foster competition by killing off competitors, and we must allow sufficient combination, not only to secure the economies of consolidation, but also to enable the smaller concerns to band together for mutual assistance against their more powerful competitors.

To secure these results, legislation should be passed forbidding any corporation engaged in interstate trade—

1. To sell commodities in one place lower than in another, with the intent to drive competitors out of business, or to injure them in any way.

2. To sell one brand of goods at an unreasonably low price, in order to drive out competing brands.

3. To refuse to sell any concern at the same price as others

under substantially similar conditions, including freight rates and credit standing.

4. To refuse to sell to those who buy of others.
5. To incorporate in leases provisions that the lessees shall not use other machines, or shall buy certain merchandise only of the lessor.
6. To regulate the price at which articles shall be sold by the retailer to the consumer.
7. To bribe the employees of other concerns to betray their trade secrets.
8. To keep patents unused, or to employ them merely as a basis for suits against competitors.
9. To operate through concerns representing themselves to be independent.
10. To employ agents to influence legislation, either state or national, except within clearly defined limits, and with complete publicity.
11. To make contributions for political or social purposes.
12. To resort to any form of coercion or fraud to injure any competitor.
13. To publish false or misleading advertisements, or use unjustified labels.
14. To give secret discounts or rebates.
15. To imitate trademarks of competitors.

In all these matters, the intent should constitute the crime, and the principle should be established that guilt is personal, and that the directors or other officials who authorized an illegal act should be punished with fine and imprisonment, unless they filed a written protest at the time. It is both ridiculous and unjust to fine the stockholders for an act of which they knew nothing. Can anyone assert that the 9,000 women—the very embodiment of the New England conscience—and the trustees of estates and charitable and financial institutions who make up the majority of the 19,175 stockholders of the American Sugar Refining Company—the arch-offender—are morally guilty of the frauds upon the government, when the very government testimony in the suit shows that they could not have known anything about them? Is it right, then,

either to reduce their incomes by fines, or to reduce the market value of their principal? Even the Hardwick report admits that they were innocent.

On the other hand, personal responsibility would soon stop illegal conduct. As an example of the working of this principle, let us take the instance of a large shipper who continued to receive rebates after they were forbidden by law. One day the freight official refused him the usual concessions, with the words, "Good Lord, man, do you know that they have just jailed a traffic man for doing just this? The company would always pay our fines, but it cannot go to prison for us, and there won't ever be any more rebates in mine!"

Many of the evils which confront us are the consequences of holding companies or interlocking directorates. It may not be possible to prohibit holding companies at once, but active measures are desirable to eliminate them as soon as possible, if for no other reason than that they allow a few men to control vast amounts of the capital of others, with but a small investment of their own funds. We can, however, forbid any director from serving in more than one corporation engaged in allied industries, and can insist upon full information being given to his stockholders of the interest which he has in other companies with which their company has financial dealings.

In order to make it possible for the stockholders to prevent the re-election of an obnoxious director, any stockholder who desires to send circulars to other stockholders for the purpose of bringing about changes in management should be permitted to have them sent by the regular certified public accountant of the corporation upon payment of the expenses incurred, but no list of stockholders should be published.

For the better protection both of the stockholders and of the public no immunity should be granted to any corporation, or to any official for his official acts, in consequence of any information furnished to any civil or judicial official of the United States, or of any state.

Definite information as to what methods of combination are legal is more important to business than certainty regarding what

is forbidden. If we are not to disorganize our social fabric, there must be some tribunal to which a trust may apply for guidance during the progress of readjustment to existing legislation. As there is now absolutely no provision to meet this real need, our business men feel that they are being persecuted when they are indicted for following well-established trade customs, to which tacit sanction has been given by the inaction of our state and federal officials. The sympathy of the public with this feeling is shown by the refusal of our juries to brand as criminals esteemed citizens who have unwittingly committed technical violations of vague statutes. However lawyers may feel about the matter, it is difficult to find a business man who has the slightest assurance as to what is forbidden by the Sherman law, even after its interpretation by the Supreme Court. Many firms feel that their trade associations are absolutely essential to preserve them from ruin, and are stupefied to find themselves prosecuted for exercising what they still feel is an inalienable right to combine for mutual assistance.

An Interstate Trade Commission, with powers similar to the Interstate Commerce Commission, seems, therefore, absolutely essential to the administration even of the existing laws, especially when high public officials, corporation lawyers, captains of industry, labor leaders, and "soldiers of the public good" all agree that it is the proper remedy. We may well, then, consider the composition of such a body, what its powers and functions should be, and what principles should govern its activities.

The Interstate Trade Commission should be so constituted as to command the confidence and respect of both the public and the business community, and, for this, the first requisite is that it be kept entirely out of politics. No man should be appointed who had held within six years a Federal or State elective office, or one which is subject to confirmation by the United States Senate. The President should make the appointments, subject to confirmation by the Senate, but each nomination should be accompanied by a certificate from the Civil Service Commission that the nominee was a man of standing, of not less than ten years' experience, and possessing the required qualifications.

It would be a good idea to have some of the members selected

from a list suggested by certain well-known organizations, instead of being chosen at random. This plan has worked well in many places. It was the basis of the Trade Guild system, which so successfully governed the great commercial cities and states of the Middle Ages. To take a recent instance, the seven members of the Finance Commission, which did such admirable work for Boston, were appointed by the mayor, under authority of the City Council, on nomination by the Boston Chamber of Commerce, The Associated Board of Trade, the Boston Merchants' Association, the Real Estate Exchange, the Clearing House Association, the Central Labor Union, and the Citizens' Association. Part of the success of Germany in all fields comes from a settled policy of employing experts, and we have made a great mistake in failing to follow this excellent example. The Interstate Trade Commission should contain a lawyer suggested by the American Bar Association; a banker, by the Bankers' Association; a political economist, by the presidents of our principal universities; a labor leader, by the American Federation of Labor; a sociologist, by the Civic Federation; a business man, by the National Chambers of Commerce; and five other men of affairs (not lawyers), possessing some knowledge of economics, and with an interest in the welfare of the masses. A board of eleven members would permit special problems to be investigated by committees in order to expedite procedure. A chairman and a vice-chairman should be designated by the president from the members who have served not less than three years.

The compensation and term of office should be such as to attract able men, who would evidently have to sacrifice their careers. The tenure of office should be for five years, with two members retiring annually, both eligible for reappointment, if confirmed by the Senate. The president should have the right to remove a member when authorized to do so by a joint resolution of the Senate and House of Representatives, passed by a two-thirds vote of each. The salary should be \$15,000 with a pension of \$5,000, annually, if a member is not reappointed; but this pension should be suspended while the recipient fills any other salaried position, or engages in business.

The function of the commission should be to give all forms of

industrial activity a free field to work out their own salutations, showing special favors to none, taking care that no injury is done either to the public or to each other, and sternly repressing all fraud, extortion, and coercion. In short it should assure fair play to the consumer, the capitalist, and the laborer.

Plenty of money for investigation should be available, and the Bureau of Corporations should be transferred to the commission, which should also be affiliated very closely with the Census Bureau, in order to prevent expensive duplication. We have hardly begun to realize what a powerful weapon we have in the new "scientific management," which makes it possible to ascertain exactly what it should cost to produce an article, instead of accepting more or less inaccurate and interested statements. It is too early to carry this idea to extremes, but provision should be made to allow the commission to publish fair prices for staple articles produced on a large scale, so that the public might have reliable information upon which to base its opinion. This would also be useful in making tariff schedules. There is likely to be much opposition to this, but it is really for the best interests of our large combinations, as it will enable them to convince the public that it is not being overcharged, and will also be a check on inefficiency.

Publicity has been found in Germany and elsewhere not only to be the best safeguard for the investor, but also for the community. The provision of our laws that all food products shall be honestly labeled is an excellent example of the successful operation of this policy. The best available means to attain these ends is to give the commission full authority to prescribe the methods of accounting of every corporation engaged in interstate commerce, but there should be an appeal to the Commerce Court from any order that might be unduly burdensome or expensive. In the case of concerns with a capital and surplus not exceeding \$1,000,000, these prescriptions should not exceed the requirements of the Association of Certified Public Accountants for proper bookkeeping.

The accounting should be supervised and audited, in accordance with the custom in England and in some of our states, by a certified public accountant approved by the commission, who, like bank examiners, should be charged with the observance of the laws,

for the certainty of punishment, and not the severity of the penalty, is what prevents wrongdoing. Annual reports showing the value and amount of the business, the capital, assets, liabilities, net income after allowing for interest, taxes, depreciation, improvements, and operating charges, should be furnished to the commission. All such reports should be sent to bondholders and stockholders, and should be published promptly if the securities are sold on stock exchanges, or offered to the public in any way. Discretion must be exercised not to publish information which might enable competitors to injure any concern.

All corporations engaged in interstate commerce should be required to obtain a license from the commission and to pay a registration fee of \$10 for corporations with a capital and surplus under \$500,000; of \$50 for those from \$500,000 to \$1,000,000; of \$100 for those from \$1,000,000 to \$10,000,000; and of \$500 for those over that amount. These fees should be at the disposal of the commission for the purposes of investigation.

The assessment of the present corporation tax, and any other taxes that may be levied on corporations, should be transferred to the commission, which should certify the tax to the Collector of Internal Revenue.

Federal incorporation should be granted to any corporation that applied for it, and the terms of the law should be so clear that a charter should be issued as a matter of routine, though the commission should be required to approve the details, just as the Commissioner of Corporations approves the papers of Massachusetts corporations.

Such charters should not be amended without the consent of the stockholders for ten years, in order to give business a chance to adapt itself to the new conditions; though the charters should be forfeited for disobedience of the laws. Congress should retain, by the express terms of the charters, full control of the hours of labor of men, women, and children, and the power to regulate employers' liability and safety appliances. It should also provide for insurance against death, old age, accidents, sickness, unemployment, and similar legislation for the welfare of the workers, such as must soon demand the attention of the nation, which cannot delay

much longer in following the example of Germany and England. Constitutional difficulties could be avoided by proper wording of the articles of incorporation.

The powers which should be granted to the commission over the issues of securities form a difficult problem, owing to the inevitable conflict with state requirements. Although it is desirable that the same restrictions should be applied to all corporations as to those with Federal charters, yet, for the present, the main reliance must be placed upon publicity, letting the investors choose for themselves after examining the facts. It seems possible, at least, to prohibit all corporations licensed by the commission, which offer stock to the public, from issuing any stock, scrip or bond dividends, except as an incident to reorganization under the authority of the commission.

All issues of stocks or bonds of federal corporations should be under the control of the commission, and none should be issued without its authorization. It should further take measures to ascertain that the money thus obtained was properly spent, but should not regulate the price at which securities should be sold. That must depend upon market conditions. If they are sold below par, the difference would naturally have to be charged to profit and loss, and should be covered by annual deductions from earnings which should be credited to an appropriate fund. A similar provision should be made for the loss occasioned by redeeming bonds above par.

Shares without par value should be authorized by the commission in its discretion, but this expedient should not be adopted on a large scale until it has stood the test of experience.

The commission should have the right to order the physical valuation of corporations when this information is necessary to enable it to pass upon the assets behind securities. It should also be authorized to compel, not only the corporations under its control, but all other organizations with which they may have dealings, to produce what books and papers may be essential to enable it to perform its duties intelligently.

Industries existing under infinitely varied conditions cannot, without disaster, be forced into one rigid mould, therefore numerous

alternatives to suit different necessities must be offered by any rational system of federal control of business. Choice should be free, the provisions for license should be as liberal as possible, and the more rigid provisions of federal incorporation should be willingly accepted as a fair concession to the demands of the public by any corporation which could not accommodate itself to the other alternatives.

In justice to existing corporations which are satisfied with present conditions, the Sherman law should remain unaltered, no matter how great the cry for its amendment, so that there shall not be any change in their status. The present rigorous enforcement of the law should be continued, and even inexorably extended as rapidly as possible to all illegal corporations. Under these conditions, no one can complain of unfair treatment, as business has had ample time to consider its position under the enforcement of the law, and relief for large combinations is provided by federal license and incorporation. It may, however, later be necessary to make federal incorporation compulsory for giant organizations.

Let us consider some alternatives with the reasons in their favor.

First, individuals, partnerships, and syndicates rated in the commercial agencies as having a capital of under \$1,000,000 should not be interfered with in any way.

For the present, those exceeding that amount need no regulation, though it should be understood that, if this freedom from control should be abused for the purpose of avoiding federal regulation of corporations, appropriate laws would be passed at once. Under existing industrial conditions, men with limited capital are at a disadvantage, and should be encouraged in every way. It would be dangerous to publish information in regard to their business, as it might hurt their credit and enable their competitors to injure them. It is for the interest of society that hazardous enterprises should be undertaken by individuals or syndicates, and not that stock companies should be organized to solicit the funds of small investors. No limit can properly be placed upon the profits of the speculative transactions which are necessary for the development of our country. If an industry is not profitable enough to attract

capital on its merits, it is better for society that it should not expand under the pressure of stock bonuses, which partake of the elements of a lottery.

Second, private, close corporations, whose stock is not offered to the public, shall be given a license by the commission upon complying with the provisions of the present corporation tax law, keeping their accounts in such manner as may be prescribed by the commission, and making annual reports, which are not to be published, provided their capital and surplus shall not exceed \$1,000,000. These organizations often resemble very closely ordinary partnerships, and should be accorded the same treatment as far as possible.

Third, private, close corporations whose capital and surplus exceed \$1,000,000 should receive a license upon complying with the provisions of the present corporation tax law, and the orders of the commission. If it should appear to the commission, after a hearing, that such a corporation is endeavoring to evade its obligations to the public, its license shall be revoked, and no license shall be granted except under the same conditions as ordinary corporations; but there shall be an appeal from such decision to the Commerce Court.

Fourth, trade or other associations without capital stock, composed of individuals, firms, or private, close corporations, organized for mutual information or assistance, should be licensed, when their articles of incorporation meet with the approval of the commission, upon the payment of a fee of \$10. They should, however, be subject to summary dissolution by the commission, after a hearing, whenever their conduct appears to be against the best interests of the community. As they are not in business, no injury will ensue from the absence of the right of appeal. It will be difficult to watch them, so it is wise to put them on their good behavior, relying, for the protection of society, upon the existing laws regarding the prosecution of individuals for violations of the statutes.

There is some opposition to such associations, but they seem essential to the preservation of small concerns from the destructive competition of larger organizations. They exist in almost every industry, and are said to number more than 25,000, so it is evident

that prohibiting them would cause much hardship, especially since many are entirely legitimate. It will not be difficult to prevent abuses, as they are particularly vulnerable to prosecution, because it is impossible to preserve secrecy on account of the number of individuals concerned.

They should be specifically forbidden to fix prices arbitrarily; to boycott concerns for any reason; to attempt to control the customers of retailers, producers, or wholesalers; to provide for the inspection of records of sales; to give mutual pledges or forfeits; to agree to sell at list prices; or to combine to curtail production. They should, however, be allowed to publish in print, information as to the supply and demand of commodities, market prices, and any other matters of interest to the industry. Formerly, neither the producer nor the consumer had any means of knowing the market price, and the middleman could take advantage of his ignorance and exact excessive profits. Now, whenever such lists are available, any man can know the market, and the middleman can only secure pay for his services as purchasing agent and in granting credit. The government recognizes, by publishing crop reports, that it is beneficial to society that the supply should be known, and the market reports of the prices of grain and other commodities are an unquestioned necessity of modern business.

These associations should be encouraged to secure and impart, secretly if necessary, information as to improvements in production and distribution, and the methods of scientific management. Many business men are not up to date, and follow mistaken policies to the disadvantage of society, which has to pay for all waste. Education along these lines can only be carried on by some such agency.

It is to be expected that consumers' associations will be formed to publish fair prices for articles of common necessity, and that the parcels post will foster growers' associations, which will sell farm products in the cities, as is the custom in England. This will contribute in some degree to decrease the cost of living.

Fifth, cartels, or associations of plants engaged only in closely allied industries, for the purpose of buying raw materials, selling their products through a common selling agency, improving pro-

duction by comparing costs, seeking economies, and adopting new methods, should receive a license upon the approval by the commission of their articles of incorporations. They should terminate by the terms of their agreement in five years.

The formation of cartels seems to be the best way to allow combinations which desire to comply with the demands of the public to work out their economic destinies. As they are subject to immediate dissolution for cause, by the commission, they cannot work any serious injury to the state, while, on the other hand, they are not limited as to capital or dividends. Their great advantage is that they preserve the identity of all of the component plants, instead of merging them into one. They can be dissolved without hardship, as there is no necessity of "unscrambling the eggs." Skill in management and production, and personal enterprise will still count in each plant. Owing to their limited duration, they cannot obtain permanent possession of natural monopolies like water power, coal and iron mines, and railroads, or control banks or other institutions. It is quite possible to limit them to less than one-third of the total output of any industry, to ensure complete publicity, to prevent the renewal of agreements without the approval of the commission, and to bring them at all times under the control of the government.

This form of co-operation would probably have developed in this country as it has in Germany, where, instead of meeting with hostility, it has merited popular approval, if it had not been prohibited by the Sherman law, which fostered instead the growth of our form of trust. We should now give it a chance to compete with its natural rivals, for it is not the province of government to decide which form of industrial machinery is best, but to give all air play, sternly check all abuses, and let economic forces decide which best merits survival.

Cartels are very successful in preventing violent fluctuations in price which work again at the interest of society by driving individuals out of business, with consequent loss to the state, and by throwing industries into the hands of more powerful or less scrupulous concerns. So far, the only successful means of protecting individuals against the vicissitudes of staple industries is by allowing

them to associate in order to adapt the supply to the demand by curtailing production if necessary, and by assigning quotas to the different plants. There is great popular objection to anything of this kind, but some remedy must be found to prevent the accumulation of large quantities of goods for which there is no present demand, and which must consequently be sold at a loss. Every time this happens it drives some concerns into bankruptcy, and prevents capital from entering the industry.

The agreements of the cartels should be enforced in the courts like any other contracts, but only if approved by the commission. Any plant should be allowed to join or leave at will, and orders should be filled under some system of pooling by the plant best equipped to take care of them. Their information as to supply and demand should be furnished to the commission, which should have the right to publish this in its discretion. They must not combine to raise prices, except incidentally, or to deteriorate the quality, and here the intent should constitute the crime. The proceedings of their directors, as well as all agreements, should be certified to the commission, and they should not be allowed to use boycotts, cut-throat competition, or force in any way. Immediate dissolution, with prosecution, should be the penalty for improper conduct.

Cartels are especially adapted to foster exports, and have so many other advantages that existing organizations should be allowed to reorganize under this form.

Sixth, corporations which offer stock to the public, or whose stock is dealt in upon any stock exchange, should be given a license upon complying with the provisions of the present Corporation Tax law, keeping their accounts and making reports in such manner as may be prescribed by the commission.

Such reports should be promptly published in order to permit investors to see exactly what the assets and liabilities are, and how much stock has been issued for good-will, patents, franchises, and the capitalization of earnings, thus making it difficult to defraud them. Such publicity will also act as a remedy for extortionate prices, as, if a concern pays abnormal dividends on a fair capitalization, or reasonable dividends upon an excessive capitali-

zation, competition is sure to follow, unless checked by unwise laws. Further, unreasonable profits can be quickly restrained by a graduated tax on its profits, or by altering the tariff on its product.

A great advantage of publicity will be that it will tend to transfer to reputable investments the vast sums, estimated at not less than \$70,000,000, which are annually lost by uninformed investors in "wildcat securities." It may be necessary to have a federal counterpart of the Kansas "Blue Sky" law.

If any corporation of this class has reason to believe that it has developed contrary to the provisions of the Sherman law, it shall be exempt from prosecution under this law, except for overt acts, for four months after it has signified in writing to the commission its desire to comply with the law, and agreed to submit a plan of reorganization, either federal or state, in accordance with the statutes and the published regulations of the commission. It shall also be exempt from prosecution while negotiating the details of such reorganization, for a period not to exceed one year from the date of such notice; but such notice shall not interfere with any action previously commenced by the United States, and such exemption shall terminate if the commission shall certify to the Attorney-General that it is unable to agree upon any satisfactory plan of reorganization. The period of negotiation may be extended by order of the commission.

No such organization should permit the continued existence of any holding company, and all holding companies must either buy out or lease the plants of allied companies, and sell or exchange the securities of such companies under such conditions as may be approved by the commission.

The courts should also refer to the commission for approval all plans for the reorganization of corporations dissolved under the Sherman law, and no such corporation shall engage in interstate trade without a license.

Seventh, federal incorporation should be granted to any corporation which applies for it, including those which have asked for federal license, or which have received it, under new legislation devised for the purpose of protecting alike the interests of creditors, stockholders, workmen, and the public.

Existing corporations engaged in similar or allied lines, but not in unrelated ones, should be allowed to consolidate, whether now separate or united by leases, common ownership or holding companies, upon vote of a majority of the stock at a stockholders' meeting to be called for the purpose. New securities, not to exceed \$500,000,000, may be issued at par, with the approval of the commission, to an amount equal to the fair value of the different plants, trade marks, and patents, but no allowance should be made for good-will, franchises, or earning capacity. The same terms, with the option of cash or exchange of securities, must be offered to all stockholders, and any dissenting stockholder may deposit his indorsed stock with a United States Court, and have it valued, either by a jury, or by three commissioners to be appointed by the court. When the assessed value has been paid into court to the credit of such stockholder, his stock should be delivered to the new corporation. When all the stock has been secured, the former corporations should be dissolved after transferring all their assets and rights. No corporation should be deemed to have admitted for any purpose that the par value of its stock capitalization is equal to the value of its property, which may be worth more on account of franchises or earning capacity. The rights of the original stockholders can be protected by the terms of the exchange of stock.

This arrangement is designed to permit the reorganization of our present combinations in accordance with the dictates of sound finance, and without injustice to the innocent stockholders, or economic loss from the increased expense of operating a number of concerns formed by the dissolution of our large aggregations of capital. The interests of the public will be protected by other provisions which will be considered later.

Strange as it may seem to some, this plan, which might at first sight appear to be a fundamental modification of the Sherman law, is really the only possible means of attaining its object, namely to reduce the price of commodities by stimulating proper competition. At present existing combinations have a great advantage, as they are protected by the law from effective competition. It is difficult, and often impossible, for individuals or

small corporations to compete with our industrial giants, owing to the large amount of capital which must be invested in plants, machinery, raw materials, carrying accounts, and other requirements of business. Investors are unwilling to put their money in an entirely new enterprise of great magnitude, for it is a maxim of scientific business that any enterprise should start on a relatively small scale, and grow by natural development, educating its executives and forming its market.

Thus, evidently, the only effective rivals to our trusts must come from some form of combination of our existing successful plants, which would soon appear, if it were not for legislation; for capital is always seeking profitable investment, and any trust making large profits, but handicapped as most of them are by watered stock and obsolete plants, requiring large interest and depreciation charges, would prove a vulnerable adversary for new plants, equipped with the most improved machinery, and free from the burden of overcapitalization. It is currently reported that the plants of the United States Steel Corporation could be replaced for less than half of the par of its outstanding securities, and that if it were not for the Sherman law, other plants would combine to compete with it, and, by reducing prices, stimulated the demand, thus realizing large net profits, through earning a small margin upon an enormous output. This is, of course, the proper solution of the problem.

We must bear in mind that if combinations are economically necessary they will survive, and if dissolved, will recreate themselves in some form. If they are not advantageous, they will be destroyed by the economic tendencies which are constantly working for their downfall. For the trusts have their drawbacks, and will not necessarily drive out all their competitors. We see this from the fact that the Sugar Trust, which in 1891 controlled nearly 90 per cent of the product, produced only 43 per cent in 1911. The Steel Trust, which produced in 1902 59 per cent of the total, has fallen to 44 per cent in 1911. They are in danger from the fact that they are too big to manage economically, and are often disagreeable to deal with. Being overcapitalized, in the desire to employ all their capital at a profit, they plunge into unprofitable

side issues, and are subject to graft and corruption in various forms. Further, they must produce staples in large quantities, and so cannot adapt themselves to changing fashions or specialize. Selling from fixed lists, they cannot meet changing markets, and the rigid rules which must be made to guide large numbers of unintelligent subordinates hamper able men, who prefer their independence. It is significant that the famous "Carnegie partners" are no longer in the employ of the Steel trust. Worst of all, they have large vested interests in old plants and machinery, which they do not like to "scrap" to introduce better processes. They are thus at a disadvantage in regard to new plants. In addition to all this, there is always the crushing weight of overcapitalization, upon which dividends must be earned. It is only the ablest managers who have the courage to put the earnings into improvements for the plant.

With proper legislation along these lines, it is probable that the business of the nation will be carried on by organizations large enough to secure all the advantages of economy, but free from the objections that we have just considered. Having secured the confidence of the public in place of the present hostility, they will be able, by the very publicity which is now so much dreaded, to attract capital at low rates, and putting the surplus earnings into improvements, instead of into excessive dividends, will enable them to lower prices, and thus compete for the trade of the world.

It is quite possible, by judicious provisions in regard to incorporation, to obviate many of the abuses of the trusts, and, by removing the main temptations to improper conduct, make them useful instead of dangerous to the state. At the same time they would be greatly benefited by the cessation of popular hostility, by being made more attractive to investors, and by the certainty of being permitted to proceed unmolested, as long as they obeyed definite economic and statutory laws.

Overcapitalization is, probably, the greatest cause of justified attack, and its correction would benefit all parties except a very few. Stock watering is not in accordance with any economic law, but is the result of legislation which allows a commercial value to be placed on air castles, and makes it possible to capitalize and

sell, unbacked by tangible assets, the hope of future profits to be derived from prospective economies in production or distribution, or from raising prices through monopoly.

For instance, if two corporations each with a capital of \$1,000,000 have been earning 10 per cent each, or together, \$200,000, some promoter buys them and figures that by eliminating competition they will earn 20 per cent each, or \$400,000 in all. This is sufficient to pay 5 per cent dividends on \$8,000,000, at which sum the new corporation is capitalized—possibly divided among bonds, common and preferred stock—and the securities then sold to a gullible public. There is, evidently, a handsome profit to the promoter, even if the common stock is sold below par. Many of our large fortunes have been built up in this way, and the hostility of the public is amply justified, for if the expected profits do not materialize, the loss falls on the investors, and not on the promoter, who rarely retains much of an interest. The managers, however, in doing their best to earn dividends on the inflated stock, put up prices, and oppress the public, which, feeling only the injury, and not realizing the cause, hits out blindly at the innocent stock-holders.

In the present conflict of state legislation, it is almost impossible to prevent this unfair financing, much less visit adequate penalties on the guilty parties. The remedy, however, is simple under federal incorporation. All that is necessary is to provide that at the start the par value of the securities shall be represented by actual assets.

If we insist that all the securities of federal corporations shall represent actual value, we shall not only eliminate the evil of excessive profits to promoters and losses to investors, the burden of which falls on society, but we shall prevent the formation of any federal combinations, which do not appear at the start to be well justified by economic conditions, since prosperous plants are not willingly sold out by their owners to trusts. Either they are forced to sell by unfair competition, or other wrongful methods, or are induced to sell by offers exceeding the legitimate value of the plant. If stocks and bonds can be issued only for actual assets, where is the money to come from to pay these inflated valuations?

If unfair competition is to be prevented, how can a successful man be forced to sell against his will? If a plant is in incompetent hands, it is better for both the owner and society that it should be under more capable management.

The most economical method for the community is for corporations to secure a large part of their capital from the issue of bonds, bearing low interest, which attract investors by providing permanence of income and security of principal instead of offering large profits. Still greater protection for bondholders than for stockholders should be offered by federal incorporation, and if this is intelligently managed, we shall be able to attract the hundreds of millions of French and English savings which annually seek investment, but which shun American securities owing to their bad reputation. Our duty is plain: we must secure the most transparent publicity for all our bonds, replacing the present confused mixture of securities of related corporations with simplified mortgages, so that each investor could know just what he was buying. No new stocks or bonds should be issued except for purposes to be approved by the commission, and each corporation should be obliged to furnish the certificate of a certified public accountant that the proceeds have been properly applied. It would be well, also, to have bonds of low denominations to meet the needs of small investors.

All bonded indebtedness must be adequately protected by a very substantial investment on the part of the stockholders. It would be desirable not to have the original issue of bonds exceed one half the physical replacement value of the plants, and the net earnings should not be less than twice the interest on the bonds. In order to provide for additions, the mortgage should be of the "blanket" form, which would permit the issue of additional or "escrow" bonds, after the original issue, for not over 75 per cent of the cash cost of permanent improvements to the property, provided that the corporation is earning net, after liberal maintenance and depreciation, at least twice the amount of interest on all bonds outstanding and to be issued. The other 50 per cent of capital invested would have to come from stock issues, and would protect the interests of the old bondholders. This is the practice of our

most reputable banking houses, and obviates the necessity of second mortgages, or other forms of security. Many corporations are badly crippled today by their inability to borrow on satisfactory terms because their assets are covered by closed mortgages.

Excessive profit is probably the other main cause of complaint against the trusts. Here, also, it is possible to strike at the root of the evil, and to control by the terms of the charter both dividends and surplus. This is not socialistic, but a well-tried policy, applied to public service corporations in "stand-pat" Massachusetts. It is only necessary to extend the public service idea to those organizations which control the necessities of life, or which possess a partial monopoly to the extent of being potentially dangerous to society. No corporation is obliged to submit to this form of regulation, as it always has the option of compliance with existing laws. On the other hand, a much more liberal policy should be pursued toward commercial combinations which have to meet with competition, than is accepted by railroads, gas and electric companies, telephone and telegraph companies, and other public utilities which are protected by the state in a more or less perfect monopoly, which amounts practically to a guaranty of dividends, as in the case of the charters of the street railways of Chicago and Cleveland. We should not forget that conditions differ widely in various industries, and that a return which would be just in Massachusetts would be most inadequate in Oklahoma.

It is with the utmost reluctance that we are forced to admit the necessity of limiting the discretion of the directors of a corporation in declaring dividends, or in accumulating what surpluses seem to them necessary for the welfare of the business. On the other hand, we have to choose between the policies of fixing prices by the state which the constant experience of the last 6,000 years has shown to be both ineffective and disastrous, and of removing, by limiting the dividends of a combination, its temptation to charge excessive prices. There are many arguments in favor of letting a stock sell at a market price based on its dividend rate, but it does not seem possible to prevent the public from feeling that a high dividend rate is *prima facie* evidence of extortionate prices, which must, therefore, be reduced without further investigation.

It seems wise, therefore, to limit the regular annual dividends on the common stock of federal corporations to 10 per cent, except by a two-thirds vote of the commission. These dividends should not be increased unless the corporation shall show to the satisfaction of the commission that it has made material economies in its cost of production, in which case three quarters of the net of such reductions and economies may be applied to increasing dividends, providing that one quarter shall have been paid previously into the Treasury of the United States.

If judicious purchases of raw materials, scientific management of labor, labor-saving machinery, new processes or improvements of any kind in production or distribution shall enable the corporation to lower the price, stimulate the demand, and increase the product, thus decreasing the unit cost, such decreases shall be considered as economies in production. No consideration, however, shall be paid in reckoning such economies, to decreases in price arising solely from cheaper raw material or in any way from decreases in the rate of wages paid to individuals. It is intended that wage cutting shall not increase dividends.

If the profits of a concern are strictly limited, there is no incentive to enterprise, economy, and efficiency, but these provisions supply a stimulus to improvements and economies in production, which are the reasons alleged to justify consolidations. If such savings are not made, the consolidation is unwarranted, and no burden should be placed on the public. If they do result, the stockholders should be willing to share their gains with the public in return for the privilege of making higher profits by combination. This plan is fair to both parties, and no plants are obliged to combine unless it is for their advantage to do so.

Liberal allowances should be made, in accordance with the standing orders of the commission, for maintenance, additions, renewals, improvements, depreciation, repairs, losses in business, insurance, fixed charges, taxes, and operating expenses. No such allowances for maintenance, improvement, depreciation or repairs shall be added in any way to the capital account, either of the corporation, or in any reorganization, and such allowances shall not form the basis, directly or indirectly, for any charge upon the

public. They may be charged, as the directors provide, either to operating expenses, to special funds maintained for the purpose, with the consent of the commission, or to the emergency fund. All advances in wages, premiums, bonuses, pensions, accident-, sickness-, and death-insurance, social service and welfare expenses, and all other provisions for the improvement of the condition of the employees may be charged to operating expenses.

An emergency fund, not to exceed 5 per cent of the capital, may, at the option of the directors, be accumulated from any net profits, including those not applicable to dividends, for the purpose of meeting emergencies of any kind, though it may not be applied to the payment of dividends. This must be invested in quick assets, so as to be readily available, and may not be invested in plant or machinery, and may be made up to the full amount if depleted.

A dividend guarantee fund, not to exceed 25 per cent of the capital, may, if the directors desire, be provided from any net profits, including those not available for dividends, for the purpose only of keeping up the dividends and interest to the regular standard, for the protection of the investors in stocks and bonds. As long as it lasts, it shall be applied, if necessary quarterly, first, to pay the interest on all obligations, and next, to make up the difference between the dividends actually earned and the customary rate. If depleted, it may be made up to the full amount, but not more than 10 per cent of the capital shall be added to this fund in any one year. A sum equaling at least one annual dividend shall be invested in cash, or in securities to be approved by the commission, but such investments shall not exceed one fifth of the capital of any corporation issuing such securities, and shall be such as are legal investments for savings banks in some state, or as are accepted as security for public deposits. The balance may be invested in the quick assets of the company, but not in plant or machinery. This dividend guarantee fund will make the income permanent, and cause the stocks of federal corporations to approach the standing of bonds, providing a secure investment for the owners of small savings which demand a higher return than the interest yield of first-class bonds.

All surpluses or net profits not applicable to dividends or to

any of the above mentioned funds, shall be paid annually into the Treasury of the United States, within sixty days after the end of the fiscal year, but no corporation shall be obliged to alter its fiscal year by order of the commission.

Surpluses, also, are a real danger, as they are a constant temptation to speculation in securities, investment in outside ventures, extravagance, graft, and waste. If corporations were allowed to accumulate and use surpluses at their pleasure, there would be no method of control similar to that over the issue of stocks and bonds. The proper use of a surplus is to provide for continuous dividends in good and bad years, as investors buy stocks and bonds to secure a regular income, and not to engage in business.

Under the reorganization of an existing combination, any surplus should be divided among the stockholders, either in cash or as a stock dividend. This is likely to raise a popular outcry, but a surplus is really the property of the stockholders, and cannot be taken from them except by injustice and confiscation. The public interest can be protected, however, by a provision that the total dividends on new stock offered in exchange for the old shall not exceed the average dividends for the last five years on the old stock. In other words, neither the actual value of the property of a stockholder, nor his income, should be altered by reorganization, though the new stock certificates represent actual par value, not more or less than that.

If a corporation wishes to reorganize with the surpluses herein provided, it should be allowed to do so, paying any excess to the stockholders in cash. No injustice is done by the change either to stockholders or to the public, and an appeal to the United States courts should be provided for anyone who may consider himself injured.

One advantage of this federal incorporation will be that it will take these corporations out of the stock market and put them in the hands of investors. The stock market thrives on the increase and decrease of dividends, the "cutting of melons," and other practices known in advance only to the "insiders." All these sources of mystery and uncertainty will be eliminated at one stroke.

The business interests of this country must realize the serious-

ness of the situation, and join hands immediately to bring public pressure to bear upon our legislators to remedy by wise statutes the threatening danger to our national prosperity. As our population increases, we must inevitably cease to export raw materials and foodstuffs in payment of the trade balances against us for the large number of commodities which we must always import, and must substitute our manufactured goods. Taking into account our high standards of living and expensive labor, we can only hope to compete in the markets of the world by developing to their full extent our natural advantages in the inventiveness of our people, the wide employment of labor-saving machinery and scientific management, and the perfection of our financial and business organization, which is only a form of labor-saving machinery in the fields of distribution and administration.

Germany has a long start of us, as she has been applying the methods of science to her industries, while we have been trying political nostrums. Over 40 per cent of the success of German commerce is estimated to be due to the wise national policy of encouraging the co-operation of capital, instead of persecuting it as we are doing. Her old rival, England, is showing many signs of economic distress, and there is a widespread feeling that war between them is inevitable from economic, not political causes. Germany is wresting from England her trade in China, Mexico, and South America, while Russia is endeavoring to reach her main reliance, India, through the Persian route. If Germany is not checked by war, England, already worsted in the fields of commerce, will be in danger of sharing the fate of Venice, Spain, Portugal, France, and Holland, all of which once ruled the world. If England is defeated, we shall in our turn find it very difficult to retain sufficient hold upon the markets of the world to pay for our imports by selling our manufactures. One of the most fatal things that can happen to any commercial nation is to be undersold, as that means decadence.

But Germany is not our only rival, for Japan is a threatening competitor, owing to the low cost of labor, and the skill of her people. Most dangerous of all are the 300,000,000 of industrious, frugal, hardy, honest, skilful Chinese, trained by ages of handi-

crafts, and willing to work long hours at low wages, just awaking to modern civilization. Give them machines, and their vast untouched deposits of coal, iron, and metals will enable them to undersell every other nation, and monopolize the commerce of the world. Even today, the Hanyang iron works with iron and coal close at hand, alone employ more than 5,000 men, paying 30 cents a day to skilled machinists.

Let us realize that our economic problems are not mere matters of politics or temporary expediency, not a conflict between "stand-patter" and "progressive," but that they concern the vital interests of the future of our country, and the bread of our children. It is quite possible to settle all of these matters justly, so that we may face the world united, not divided by civil strife.

The motto of business in the past has been "Every man for himself, and the devil take the hindmost." Henceforth it must be, "All for one, one for all!"

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